



UNIT AGREEMENT  
 NORTH SCHARB UNIT AREA  
LEA COUNTY, NEW MEXICO

TABLE OF CONTENTS

<u>SECTION</u>	<u>TITLE</u>	<u>PAGE</u>
1	UNIT AREA-----	2
2	UNITIZED LAND AND UNITIZED SUBSTANCES-----	2
3	UNIT OPERATOR-----	2
4	RESIGNATION OR REMOVAL OF UNIT OPERATOR-----	3
5	SUCCESSOR UNIT OPERATOR-----	3
6	ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT--	4
7	RIGHTS AND OBLIGATIONS OF UNIT OPERATOR-----	5
8	DRILLING TO DISCOVERY-----	5
9	PLAN OF FURTHER DEVELOPMENT AND OPERATION-----	6
10	PARTICIPATION AFTER DISCOVERY-----	7
11	ALLOCATION OF PRODUCTION-----	8
12	PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES-----	8
13	CONSERVATION-----	9
14	DRAINAGE-----	9
15	LEASES AND CONTRACTS CONFORMED AND EXTENDED-----	9
16	COVENANTS RUN WITH LAND-----	11
17	EFFECTIVE DATE AND TERM-----	11
18	RATE OF PRODUCTION-----	12
19	APPEARANCES-----	12
20	NOTICES-----	12
21	NO WAIVER OF CERTAIN RIGHTS-----	12
22	UNAVOIDABLE DELAY-----	12
23	NONDISCRIMINATION-----	13
24	LOSS OF TITLE-----	13
25	NON-JOINDER AND SUBSEQUENT JOINDER-----	13
26	COUNTERPARTS-----	14
27	NO PARTNERSHIP-----	14

UNIT AGREEMENT  
FOR THE DEVELOPMENT AND OPERATION  
OF THE  
NORTH SCHARB UNIT AREA  
LEA COUNTY, NEW MEXICO

NO. \_\_\_\_\_

THIS AGREEMENT, entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1978,  
by and between the parties subscribing, ratifying or consenting hereto, and  
herein referred to as the "parties hereto,"

WITNESSETH:

WHEREAS, the parties hereto are the owners of working, royalty or other  
oil or gas interests in the unit area subject to this agreement; and

WHEREAS, The Commissioner of Public Lands of the State of New Mexico  
is authorized by an Act of the Legislature (Section 7-11-39 N.M. Statutes 1953  
Annotated) to consent to and approve the development or operation of State lands  
under agreements made by lessees of State land jointly or severally with other  
lessees where such agreements provide for the unit operation or development of  
part of or all of any oil or gas pool, field, or area; and

WHEREAS, The Commissioner of Public Lands of the State of New Mexico  
is authorized by an Act of the Legislature (Sec. 1, Chap. 162), (Laws of 1951,  
Chap. 7, Art. 11, Sec. 41 N.M. Statutes 1953 Annotated) to amend with the approval  
of lessee, evidenced by the lessee's execution of such agreement or otherwise, any  
oil and gas lease embracing State lands so that the length of the term of said  
lease may coincide with the term of such agreements for the unit operation and  
development of part or all of any oil or gas pool, field or area; and

WHEREAS, The Oil Conservation Commission of the State of New Mexico  
(hereinafter referred to as the "Commission") is authorized by an Act of the  
Legislature (Article 3, Chapter 65, Vol. 9, Part 2, 1953 Statutes) to approve  
this agreement and the conservation provisions hereof; and

WHEREAS, the parties hereto hold sufficient interests in the North Scharb  
Unit Area covering the land hereinafter described to give reasonably effective  
control of operations therein; and

WHEREAS, it is the purpose of the parties hereto to conserve natural resources, prevent waste and secure other benefits obtainable through development and operation of the area subject to this agreement under the terms, conditions and limitations herein set forth;

NOW, THEREFORE, in consideration of the premises and the promises herein contained, the parties hereto commit to this agreement their respective interests in the below defined unit area, and agree severally among themselves as follows:

1) UNIT AREA: The area specified on the map attached hereto marked Exhibit "A" is hereby designated and recognized as constituting the unit area, containing 1911.24 acres, more or less.

Exhibit "A" shows, in addition to the boundary of the unit area, the boundaries and identity of tracts and leases in said area to the extent known to the Unit Operator. Exhibit "B" attached hereto is a schedule showing to the extent known to the Unit Operator the acreage, percentage and kind of ownership of oil and gas interests in all lands in the unit area. However, nothing herein or in said schedule or map shall be construed as a representation by any party hereto as to the ownership of any interest other than such interest or interests as are shown on said map or schedule as owned by such party. Exhibits "A" and "B" shall be revised by the Unit Operator whenever changes in ownership in the unit area render such revisions necessary or when requested by the Commissioner of Public Lands, hereinafter referred to as "Commissioner", and two (2) copies thereof shall be filed with the Commissioner, and one (1) copy with the Commission.

2) UNITIZED LAND AND UNITIZED SUBSTANCES: All land committed to this agreement shall constitute land referred to herein as "unitized land" or "land subject to this agreement". All oil and gas in any and all formations of the unitized land are unitized under the terms of this agreement and herein are called "unitized substances".

3) UNIT OPERATOR: Mesa Petroleum Co. is hereby designated as Unit Operator and by signature hereto as Unit Operator agrees and consents to accept the duties and obligations of Unit Operator for the discovery, development and

production of unitized substances as herein provided. Whenever reference is made herein to the Unit Operator, such reference means the Unit Operator acting in that capacity and not as an owner of interest in unitized substances, and the term "working interest owner" when used herein shall include or refer to Unit Operator as the owner of a working interest when such an interest is owned by it.

4) RESIGNATION OR REMOVAL OF UNIT OPERATOR: Unit Operator shall have the right to resign at any time but such resignation shall not become effective until a successor Unit Operator has been selected and approved in the manner provided for in Section 5 of this agreement. The resignation of the Unit Operator shall not release the Unit Operator from any liability or any default by it hereunder occurring prior to the effective date of its resignation.

Unit Operator may, upon default or failure in the performance of its duties or obligations hereunder, be subject to removal by the same percentage vote of the owners of working interests determined in like manner as herein provided for the election of a new Unit Operator. Such removal shall be effective upon notice thereof to the Commissioner.

The resignation or removal of the Unit Operator under this agreement shall not terminate his right, title or interest as the owner of a working interest or other interest in unitized substances, but upon the resignation or removal of Unit Operator becoming effective, such Unit Operator shall deliver possession of all equipment, materials, and appurtenances used in conducting the unit operations and owned by the working interest owners to the new duly qualified successor Unit Operator, or to the owners thereof if no such new Unit Operator is elected, to be used for the purpose of conducting unit operations hereunder. Nothing herein shall be construed as authorizing removal of any materials, equipment and appurtenances needed for the preservation of any wells.

5) SUCCESSOR UNIT OPERATOR: Whenever the Unit Operator shall resign as Unit Operator or shall be removed as hereinabove provided, the owners of the working interests according to their respective acreage interests in all unitized land shall by a majority vote select a successor Unit Operator; provided that, if a majority but less than seventy-five per cent (75%) of the working interests.

qualified to vote is owned by one party to this agreement, a concurring vote of sufficient additional parties, so as to constitute in the aggregate not less than seventy five per cent (75%) of the total working interests, shall be required to select a new operator. Such selection shall not become effective until (a) a Unit Operator so selected shall accept in writing the duties and responsibilities of Unit Operator, and (b) the selection shall have been approved by the Commissioner. If no successor Unit Operator is selected and qualified as herein provided, the Commissioner at his election may declare this Unit Agreement terminated.

6) ACCOUNTING PROVISIONS AND UNIT OPERATING AGREEMENT: If the Unit Operator is not the sole owner of working interest, costs and expenses incurred by the Unit Operator in conducting unit operations hereunder shall be paid and apportioned among and borne by the owners of working interests, all in accordance with the agreement or agreements entered into by and between the Unit Operator and the owners of working interests, whether one or more, separately or collectively. Any agreement or agreements entered into between the working interest owners and the Unit Operator as provided in this section, whether one or more, are herein referred to as the "Unit Operating Agreement". Such Unit Operating Agreement shall also provide the manner in which the working interest owners shall be entitled to receive their respective proportionate and allocated share of the benefits accruing hereto in conformity with their underlying operating agreements, leases or other independent contracts, and such other rights and obligations as between Unit Operator and the working interest owners as may be agreed upon by Unit Operator and the working interest owners; however, no such Unit Operating Agreement shall be deemed either to modify any of the terms and conditions of this Unit Agreement or to relieve the Unit Operator of any right or obligation established under this Unit Agreement, and in case of any inconsistency or conflict between this Unit Agreement and the Unit Operating Agreement, this Unit Agreement shall govern. Two true copies of any Unit Operating Agreement executed pursuant to this section should be filed with the Commissioner and one true copy with the Commission, prior to approval of this Unit Agreement.

7) RIGHTS AND OBLIGATIONS OF UNIT OPERATOR: Except as otherwise specifically provided herein, the exclusive right, privilege, and duty of exercising any and all rights of the parties hereto which are necessary or convenient for prospecting for, producing, storing, allocating, and distributing the unitized substances are hereby delegated to and shall be exercised by the Unit Operator as herein provided. Acceptable evidence of title to said rights shall be deposited with said Unit Operator and, together with this agreement, shall constitute and define the rights, privileges, and obligations of Unit Operator. Nothing herein, however, shall be construed to transfer title to any land or to any lease or operating agreement, it being understood that under this agreement the Unit Operator, in its capacity as Unit Operator, shall exercise the rights of possession and use vested in the parties hereto only for the purposes herein specified.

8) DRILLING TO DISCOVERY: After the effective date hereof, but no later than May 15, 1978, the Unit Operator shall begin to drill an adequate test well at a location approved by the Commissioner, unless on such effective date a well is being drilled conformably with the terms hereof, and thereafter continue such drilling diligently until the Morrow formation has been tested or until at a lesser depth unitized substances shall be discovered which can be produced in paying quantities (to-wit: quantities sufficient to repay the costs of drilling, completing, and producing operations, with a reasonable profit) or the Unit Operator shall at any time establish to the satisfaction of the Commissioner that further drilling of said well would be unwarranted or impracticable, provided, however, that Unit Operator shall not in any event be required to drill said well to a depth in excess of 14,000 feet. Until the discovery of a deposit of unitized substances capable of being produced in paying quantities, The Unit Operator shall continue drilling one well at a time, allowing not more than six (6) months between the completion of one well and the beginning of the next well, until a well capable of producing unitized substances in paying quantities is completed to the satisfaction of the Commissioner, or until it is reasonably proved that the unitized land is incapable of producing unitized substances in paying quantities in the formations drilled hereunder. Nothing in this section shall be deemed to limit the right of the Unit Operator to resign

as provided in Section 4 hereof, or as requiring Unit Operator to commence or continue any drilling during the period pending such resignation becoming effective in order to comply with the requirements of this section by granting reasonable extensions of time when, in his opinion, such action is warranted. Upon failure to comply with the drilling provisions of this article, including any extension of time granted by the Commissioner, the Commissioner may, after 15 days notice to the Unit Operator, declare this Unit Agreement terminated, and all rights, privileges and obligations granted and assumed by this Unit Agreement shall cease and terminate as of such date.

9) PLAN OF FURTHER DEVELOPMENT AND OPERATION: Within six (6) months after completion of a well capable of producing unitized substances in paying quantities, the Unit Operator shall submit for the approval of the Commissioner an acceptable plan of development and operation for the unitized land which, when approved by the Commissioner, shall constitute the further drilling and operating obligations of the Unit Operator under this agreement for the period specified therein. Thereafter, from time to time before the expiration of any existing plan, the Unit Operator shall submit for the approval of the Commissioner a plan for an additional specified period for the development and operation of the unitized land.

Any plan submitted pursuant to this section shall provide for the exploration of the unitized area and for the diligent drilling necessary for determination of the area or areas thereof capable of producing unitized substances in paying quantities in each and every productive formation and shall be as complete and adequate as the Commissioner may determine to be necessary for timely development and proper conservation of the oil and gas resources of the unitized area and shall:

- a) specify the number and locations of any wells to be drilled and the proposed order and time for such drilling; and
- b) to the extent practicable, specify the operating practices regarded as necessary and advisable for proper conservation of natural resources.

Separate plans may be submitted for separate productive zones, subject to the approval of the Commissioner.

Plans shall be modified or supplemented when necessary to meet changed

conditions or to protect the interests of all parties to this agreement. Reasonable diligence shall be exercised in complying with the obligation of the approved plan of development. The Commissioner is authorized to grant a reasonable extension of the 6-month period herein prescribed for submission of an initial plan of development where such action is justified because of unusual conditions or circumstances. After completion hereunder of a well capable of producing any unitized substances in paying quantities, no further wells, except such as may be necessary to afford protection against operations not under this agreement and such as may be specifically approved by the Commissioner, shall be drilled except in accordance with a plan of development approved as herein provided.

If the Unit Operator should fail to comply with the above covenant for reasonable development this agreement may be terminated by the Commissioner as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units, but in such event, the basis of participation by the working interest owners shall remain the same as if this agreement had not been terminated as to such lands; provided, however, the Commissioner shall give notice to the Unit Operator and the lessees of record in the manner prescribed by Sec. 7-11-14, N.M. Statutes 1953 Annotated, of intention to cancel on account of any alleged breach of said covenant for reasonable development and any decision entered thereunder shall be subject to appeal in the manner prescribed by Sec. 7-11-17, N.M. Statutes 1953 Annotated, and, provided further, in any event the Unit Operator shall be given a reasonable opportunity after a final determination within which to remedy any default, failing in which this agreement shall be terminated as to all lands of the State of New Mexico embracing undeveloped regular well spacing or proration units.

10) PARTICIPATION AFTER DISCOVERY: Upon completion of a well capable of producing unitized substances in paying quantities, the owners of working interests shall participate in the production therefrom and in all other producing wells which may be drilled pursuant hereto in the proportions that their respective leasehold interests covered hereby on an acreage basis bears to the total number of acres committed to this Unit Agreement, and such unitized substances shall be deemed to have been produced from the respective leasehold interests participating

therein. For the purpose of determining any benefits accruing under this agreement and the distribution of the royalties payable to the State of New Mexico and other lessors, each separate lease shall have allocated to it such percentage of said production as the number of acres in each lease respectively committed to this agreement bears to the total number of acres committed hereto.

Notwithstanding any provisions contained herein to the contrary, each working interest owner shall have the right to take such owner's proportionate share of the unitized substances in kind or to personally sell or dispose of the same, and nothing herein contained shall be construed as giving or granting to the Unit Operator the right to sell or otherwise dispose of the proportionate share of any working interest owner without specific authorization from time to time so to do.

11) ALLOCATION OF PRODUCTION: All unitized substances produced from each tract in the unitized area established under this agreement, except in any part thereof used for production or development purposes hereunder, or unavoidably lost, shall be deemed to be produced equally on an acreage basis from the several tracts of the unitized land, and for the purpose of determining any benefits that accrue on an acreage basis, each tract shall have allocated to it such percentage of said production as its area bears to the entire unitized area. It is hereby agreed that production of unitized substances from the unitized area shall be allocated as provided herein, regardless of whether any wells are drilled on any particular tract of said unitized area.

12) PAYMENT OF RENTALS, ROYALTIES AND OVERRIDING ROYALTIES: All rentals due the State of New Mexico shall be paid by the respective lease owners in accordance with the terms of their leases.

All royalties due the State of New Mexico under the terms of the leases committed to this agreement shall be computed and paid on the basis of all unitized substances allocated to the respective leases committed hereto; provided, however, the State shall be entitled to take in kind its share of the unitized substances allocated to the respective leases, and in such case the Unit Operator shall make deliveries of such royalty oil in accordance with the terms of the respective leases.

If the Unit Operator introduces gas obtained from sources other than the unitized substances into any producing formation for the purpose of repressuring, stimulating or increasing the ultimate recovery of unitized substances therefrom, a like amount of gas, if available, with due allowance for loss or depletion from any cause may be withdrawn from the formation into which the gas was introduced royalty free as to dry gas but not as to the products extracted therefrom; provided, that such withdrawal shall be at such time as may be provided in a plan of operation consented to by the Commissioner and approved by the Commission as conforming to good petroleum engineering practice; and provided further, that such right of withdrawal shall terminate on the termination of this Unit Agreement.

If any lease committed hereto is burdened with an overriding royalty, payment out of production or other charge in addition to the usual royalty, the owner of each such lease shall bear and assume the same out of the unitized substances allocated to the lands embraced in each such lease as provided herein.

13) CONSERVATION: Operations hereunder and production of unitized substances shall be conducted to provide for the most economical and efficient recovery of said substances without waste, as defined by or pursuant to State or Federal laws or regulations.

14) DRAINAGE: The Unit Operator shall take such measures as the Commissioner deems appropriate and adequate to prevent drainage of unitized substances from unitized land by wells on land not subject to this agreement.

15) LEASES AND CONTRACTS CONFORMED AND EXTENDED INSOFAR AS THEY APPLY TO LANDS WITHIN THE UNITIZED AREA: The terms, conditions and provisions of all leases, subleases, operating agreements and other contracts relating to the exploration, drilling development or operation for oil or gas of the lands committed to this agreement, shall as of the effective date hereof, be and the same are hereby expressly modified and amended insofar as they apply to lands within the unitized area to the extent necessary to make the same conform to the provisions hereof and so that the respective terms of said leases and agreements will be extended insofar as necessary to coincide with the term of this agreement and the approval of this agreement by the Commissioner and the respective lessors and lessees shall be effective to conform the provisions and extend the

terms of each such lease as to lands within the unitized area to the provisions and terms of this agreement; but otherwise to remain in full force and effect. Each lease committed to this agreement, insofar as it applies to lands within the unitized area, shall continue in force beyond the term provided therein as long as this agreement remains in effect, provided, drilling operations upon the initial test well provided for herein shall have been commenced or said well is in the process of being drilled by the Unit Operator prior to the expiration of the shortest term lease committed to this agreement. Termination of this agreement shall not effect any lease which pursuant to the terms thereof or any applicable laws would continue in full force and effect thereafter. The commencement, completion, continued operation or production on each of the leasehold interests committed to this agreement and operations or production pursuant to this agreement shall be deemed to be operations upon and production from each leasehold interest committed hereto and there shall be no obligation on the part of the Unit Operator or any of the owners of the respective leasehold interests committed hereto to drill offsets to wells as between the leasehold interests committed to this agreement, except as provided in Section 9 hereof.

Any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall be segregated as to the portion committed and as to the portion not committed and the terms of such leases shall apply separately as to such segregated portions commencing as of the effective date hereof. Notwithstanding any of the provisions of this agreement to the contrary, any lease embracing lands of the State of New Mexico having only a portion of its lands committed hereto shall continue in full force and effect beyond the term provided therein as to all lands embraced in such lease, if oil and gas, or either of them, are discovered and are being produced in paying quantities from some part of the lands embraced in such lease committed to this agreement at the expiration of the secondary term of such lease, or if, at the expiration of the secondary term, the lessee or the Unit Operator is then engaged in bona fide drilling or reworking operations on some part of the lands embraced therein shall remain in full force and effect so long as such operations are being diligently prosecuted, and they result in the production of oil or gas, said lease shall continue in full force and effect as to all of the lands embraced therein, so long thereafter as oil and gas, or either of them, are being produced

in paying quantities from any portion of said lands.

16) COVENANTS RUN WITH LAND: The covenants herein shall be construed to be covenants running with the land with respect to the interest of the parties hereto and their successors in interest until this agreement terminates, and any grant, transfer, or conveyance of interest in land or leases subject hereto shall be and hereby is conditioned upon the assumption of all privileges and obligations hereunder by the grantee, transferee or other successor in interest. No assignment or transfer of any working interest, royalty, or other interest subject hereto shall be binding upon Unit Operator until the first day of the calendar month after Unit Operator is furnished with the original, photostatic, or certified copy of the instrument of transfer.

17) EFFECTIVE DATE AND TERM: This agreement shall become effective upon approval by the Commissioner, or his duly authorized representatives and shall terminate two (2) years from said effective date unless:

(a) such date of expiration is extended by the Commissioner, or

(b) it is reasonably determined prior to the expiration of the fixed term or any extension thereof that the unitized land is incapable of production of unitized substances in paying quantities in the formations tested hereunder and after notice of intention to terminate the agreement on such ground is given by the Unit Operator to all parties in interest at their last known addresses, the agreement is terminated with the approval of the Commissioner, or

(c) a valuable discovery of unitized substances has been made or accepted on unitized land during said initial term or any extension thereof, in which event the agreement shall remain in effect for such term and so long as unitized substances can be produced in quantities sufficient to pay for the cost of producing same should production cease, so long thereafter as diligent operations are in progress for the restoration of production or discovery of new production and so long thereafter as unitized substances so discovered can be produced as aforesaid, or

(d) it is terminated as heretofore provided in this agreement.

This agreement may be terminated at any time by not less than 75 per centum, on an acreage basis, of the working interest owners signatory hereto, with the approval

of the Commissioner; notice of any such approval to be given by the Unit Operator to all parties hereto.

18) RATE OF PRODUCTION: All production and the disposal thereof shall be in conformity with allocations, allotments and quotas made or fixed by the Commission and in conformity with all applicable laws and lawful regulations.

19) APPEARANCES: Unit Operator shall, after notice to other parties affected, have the right to appear for and on behalf of any and all interests affected hereby before the Commissioner of Public Lands of the State of New Mexico and the New Mexico Oil Conservation Commission and to appeal from orders issued under the regulations of said Commission or Commissioner or to apply for relief from any of said regulations or in any proceedings relative to operations before the Commissioner or Commission, or any other legally constituted authority; provided, however, that any other interested party shall also have the right at his own expense to be heard in any such proceeding.

20) NOTICES: All notices, demands or statements required hereunder to be given or rendered to the parties hereto shall be deemed fully given if given in writing and personally delivered to the party or sent by postpaid registered or certified mail, addressed to such party or parties at their respective addresses set forth in connection with the signatures hereto or to the ratification or consent hereof or to such other address as any such party may have furnished in writing to party sending the notice, demand or statement.

21) NO WAIVER OF CERTAIN RIGHTS: Nothing in this agreement contained shall be construed as a waiver by any party hereto of the right to assert any legal or constitutional right or defense as to the validity or invalidity of any law of the State wherein said unitized lands are located, or of the United States, or regulations issued thereunder in any way affecting such party, or as a waiver by any such party of any right beyond his or its authority to waive.

22) UNAVOIDABLE DELAY: All obligations under this agreement requiring the Unit Operator to commence or continue drilling or to operate on or produce unitized substances from any of the lands covered by this agreement shall be suspended while the Unit Operator, despite the exercise of due care and diligence, is prevented from complying with such obligations, in whole or in part,

by strikes, acts of God, Federal, State or municipal law or agencies, unavoidable accidents, uncontrollable delays in transportation, inability to obtain necessary materials in open market, or other matters beyond the reasonable control of the Unit Operator whether similar to matters herein enumerated or not. No unit obligation which is suspended under this section shall become due less than thirty (30) days after it has been determined that the suspension is no longer applicable. Determination of creditable "Unavoidable Delay" time shall be made by the Unit Operator subject to approval of the Commissioner.

23) NONDISCRIMINATION: In connection with the performance of work under this agreement, the Operator agrees to comply with all of the provisions of Section 202 (1) to (7) inclusive of Executive Order 11246 (30 F.R. 12319), which are hereby incorporated by reference in this agreement.

24) LOSS OF TITLE: In the event title to any tract of unitized land shall fail and the true owner cannot be induced to join in this Unit Agreement, such tract shall be automatically regarded as not committed hereto and there shall be such readjustment of future costs and benefits as may be required on account of the loss of such title. In the event of a dispute as to title to any royalty, working interest or other interests subject thereto, payment or delivery on account thereof may be withheld without liability for interest until the dispute is finally settled; provided, that no payments of funds due the State of New Mexico should be withheld, but such funds of the State of New Mexico shall be deposited as directed by the Commissioner to be held as unearned money pending final settlement of the title dispute, and then applied as earned or returned in accordance with such final settlement.

Unit Operator as such is relieved from any responsibility for any defect or failure of any title hereunder.

25) NON-JOINDER AND SUBSEQUENT JOINDER: If the owner of any substantial interest in a tract within the unit area fails or refuses to subscribe or consent to this agreement, the owner of the working interest in that tract may withdraw said tract from this agreement by written notice delivered to the Commissioner and the Unit Operator prior to the approval of this agreement by the Commissioner. Any oil or gas interests in lands within the unit area not committed hereto prior to submission of this agreement for final approval may

thereafter be committed hereto by the owner or owners thereof subscribing or consenting to this agreement, and, if the interest is a working interest, by the owner of such interest also subscribing to the Unit Operating Agreement. After operations are commenced hereunder, the right of subsequent joinder, as provided in this section, by a working interest owner is subject to such requirements or approvals, if any, pertaining to such joinder, as may be provided for in the Unit Operating Agreement. After final approval hereof, joinder by a non-working interest owner must be consented to in writing by the working interest owner committed hereto and responsible for the payment of any benefits that may accrue hereunder in behalf of such non-working interest. A non-working interest may not be committed to this Unit Agreement unless the corresponding working interest is committed hereto. Joinder to the Unit Agreement by a working interest owner, at any time, must be accompanied by appropriate joinder to the Unit Operating Agreement, if more than one committed working interest owner is involved, in order for the interest to be regarded as committed to this Unit Agreement. Except as may otherwise herein be provided, subsequent joinders to this agreement shall be effective as of the first day of the month following the filing with the Commissioner of duly executed counterparts of all or any papers necessary to establish effective commitment of any tract to this agreement, provided, however, that all subsequent joinders must be approved by the Commissioner.

26) COUNTERPARTS: This agreement may be executed in any number of counterparts no one of which needs to be executed by all parties or may be ratified or consented to by separate instrument in writing specifically referring hereto and shall be binding upon all those parties who have executed such a counterpart, ratification, or consent hereto with the same force and effect as if all such parties had signed the same document and regardless of whether or not it is executed by all other parties owning or claiming an interest in the lands within the above described unit area.

27) NO PARTNERSHIP: It is expressly agreed that the relation of the parties hereto is that of independent contractors and nothing in this agreement contained, expressed or implied, nor any operations conducted hereunder, shall create or be deemed to have created a partnership or association between the

parties hereto or any of them, except as provided in Article XV.D., "Tax Partnership Agreement" in the Unit Operating Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be executed and have set opposite their respective names the date of execution.

UNIT OPERATOR AND WORKING INTEREST OWNER

Date: February 15, 1978  
Address: 1000 Vaughn Building  
Midland, Texas 79701

MESA PETROLEUM CO.

By: Robert H. Northington  
Robert H. Northington  
Attorney-in-Fact

WORKING INTEREST OWNERS

AMOCO PRODUCTION COMPANY

By: \_\_\_\_\_  
Attorney-in-Fact

PENNZOIL COMPANY

By: \_\_\_\_\_  
Agent and Attorney-in-Fact

TRANSWESTERN GAS SUPPLY COMPANY

By: \_\_\_\_\_  
Vice-President

PACIFIC LIGHTING GAS DEVELOPMENT COMPANY

By: \_\_\_\_\_  
Vice-President

WAINOCO OIL & GAS COMPANY

By: \_\_\_\_\_  
President

ATLANTIC RICHFIELD COMPANY

By: \_\_\_\_\_  
Attorney-in-Fact

Perry R. Bass

BASS ENTERPRISES PRODUCTION CO.

By: \_\_\_\_\_  
Vice-President

ATTEST: \_\_\_\_\_  
Secretary

ATTEST: \_\_\_\_\_  
Secretary

ATTEST: \_\_\_\_\_  
Secretary

ATTEST: \_\_\_\_\_  
Secretary

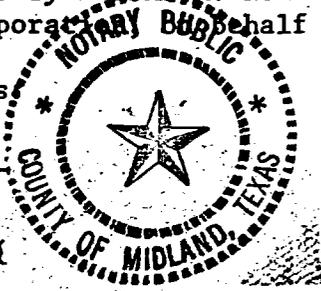
THE STATE OF TEXAS I

COUNTY OF MIDLAND I

The foregoing instrument was acknowledged before me this 22<sup>nd</sup> day of March, 1978 by ROBERT H. NORTHINGTON, Attorney-in-Fact for MESA PETROLEUM CO., a corporation, on behalf of said corporation.

My Commission Expires

6-21-79



Kanda Pressall  
Notary Public

THE STATE OF TEXAS I

COUNTY OF HARRIS I

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_, 1978 by \_\_\_\_\_, Attorney-in-Fact for AMOCO PRODUCTION COMPANY, a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_, 1978, by \_\_\_\_\_, Agent and Attorney-in-Fact for PENNZOIL COMPANY, a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_, 1978, by \_\_\_\_\_, Vice-President of TRANSWESTERN GAS SUPPLY COMPANY, a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF CALIFORNIA I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_ day of \_\_\_, 1978, by \_\_\_\_\_, Vice-President of PACIFIC LIGHTING GAS DEVELOPMENT COMPANY, a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1978, by \_\_\_\_\_, President of WAINOCO OIL & GAS COMPANY, a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1978, by PERRY R. BASS.

My Commission Expires:

\_\_\_\_\_  
Notary Public

THE STATE OF I

COUNTY OF I

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 1978, by \_\_\_\_\_, Vice-President of BASS ENTERPRISES PRODUCTION CO., a corporation, on behalf of said corporation.

My Commission Expires:

\_\_\_\_\_  
Notary Public

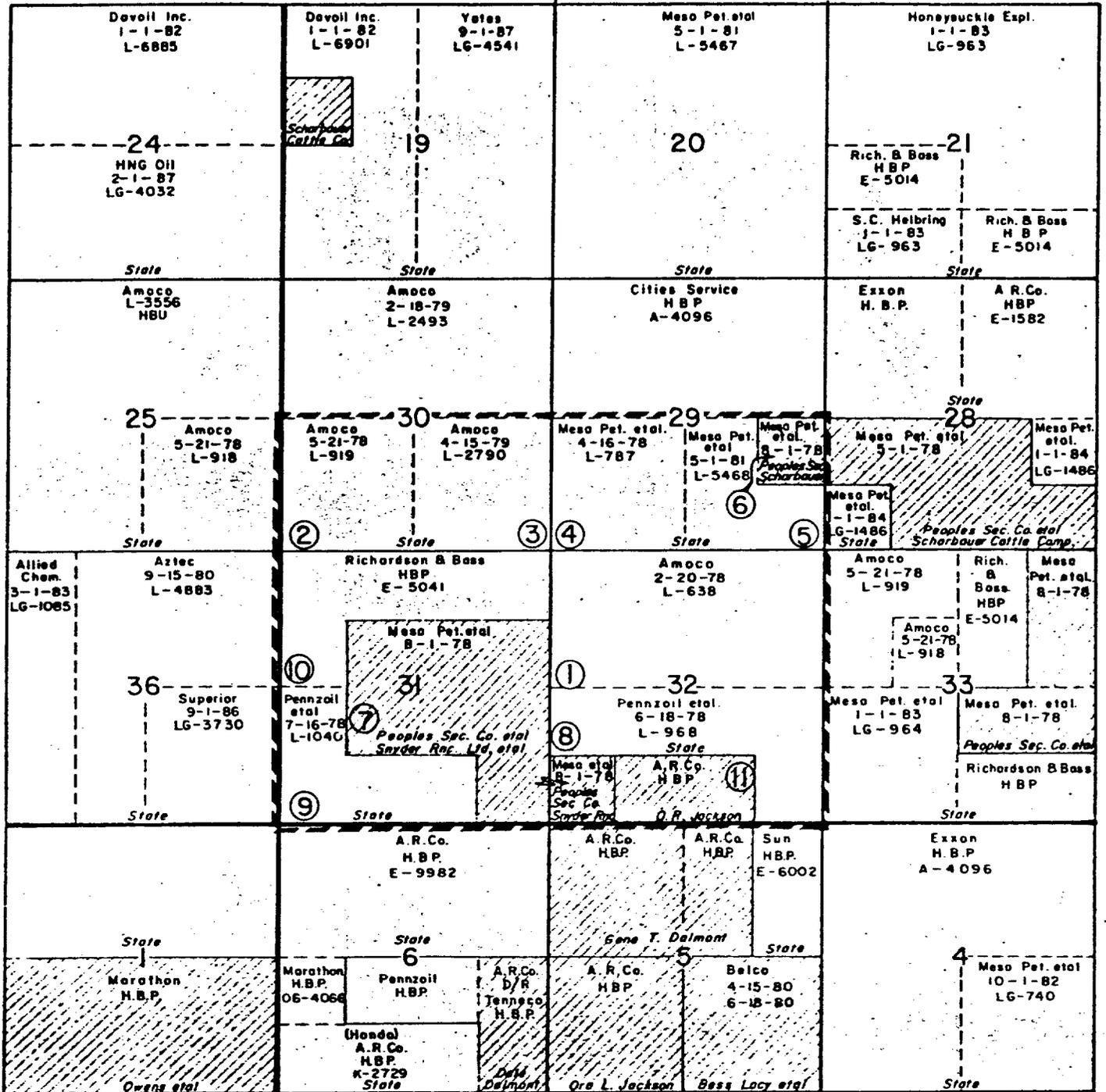


Exhibit A

NORTH SCHARB UNIT

LEA COUNTY, NEW MEXICO

	Acres	%
UNIT AREA OUTLINE	1911.24	100.00
STATE LANDS	1471.24	76.98
FEE (PATENT) LANDS	440.00	23.02

Township 18 South, Range 35 East, NMPM

Section 29: South 1/2      Section 31: All  
 Section 30: South 1/2      Section 32: All

"NORTH SCHARB UNIT"

EXHIBIT "A"

Attached to and made a part of Unit Agreement for the Development and Operation of the North Scharb Unit Area:

I.

Operator

Mesa Petroleum Co.

Non-Operators

Amoco Production Company  
Pennzoil Company  
Transwestern Gas Supply Company  
Pacific Lighting Gas Development Company  
Wainoco Oil & Gas Company  
Atlantic Richfield Company  
Perry R. Bass  
Bass Enterprises Production Co.

II.

The Unit Area is comprised of and includes all of the lands and oil and gas leasehold interests intended to be developed and operated for oil and gas purposes under this agreement, being 1911.24 acres described as S $\frac{1}{2}$  Sections 29 & 30 and All Sections 31 & 32, Township 18 South, Range 35 East, NMPM, Lea County, New Mexico.

III.

The Unit Area is comprised of and consists of all formations and horizons under the aforesaid land, and is not limited as to any depth or formation.

IV.

Description of Oil & Gas Leases Subject to this Unit Agreement:

Tract 1 - 320 a., N $\frac{1}{2}$  Section 32  
Dated : February 20, 1968  
Lessor : State of New Mexico, L-638  
Lessee : Amoco Production Company  
Owner : Amoco Production Company  
Royalty: 12 $\frac{1}{2}$ % Other Burden: -0-

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Tract 2 - 156.96 a., Lots 3 & 4, E $\frac{1}{2}$ SW $\frac{1}{4}$  Section 30  
Dated : May 21, 1968  
Lessor : State of New Mexico, L-919  
Lessee : Amoco Production Company  
Owner : Amoco Production Company  
Royalty: 12.5% Other Burden: -0-

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Tract 3 - 160 a., SE $\frac{1}{4}$  Section 30  
Dated : April 15, 1969  
Lessor : State of New Mexico, L-2790  
Lessee : Amoco Production Company  
Owner : Amoco Production Company  
Royalty: 12.5% Other Burden: -0-

Tract 4 - 160 a., SW $\frac{1}{4}$  Section 29  
 Dated : April 16, 1968  
 Lessor : State of New Mexico, L-787  
 Lessee : Mesa Petroleum Co.  
 Owner : Mesa Petroleum Co. 70%  
 Transwestern Gas Supply Company 15%  
 Pacific Lighting Gas Development Company 15%  
 Royalty: 12.5% Other Burden: -0-

Tract 5 - 120 a., W $\frac{1}{2}$ SE $\frac{1}{4}$  & SE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 29  
 Dated : May 1, 1971  
 Lessor : State of New Mexico, L-5468  
 Lessee : Mesa Petroleum Co.  
 Owner : Mesa Petroleum Co. 70%  
 Transwestern Gas Supply Company 15%  
 Pacific Lighting Gas Development Company 15%  
 Royalty: 12.5% Other Burden: -0-

Tract 6 - 40 a., NE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 29  
 Dated : August 1, 1973  
 Lessor : Peoples Securities Company  
 Lessee : Mesa Petroleum Co.  
 Owner : Mesa Petroleum Co. 70%  
 Transwestern Gas Supply Company 15%  
 Pacific Lighting Gas Development Company 15%  
 Royalty: 18.75% Other Burden: -0-

Tract 7 - 320 a., SE $\frac{1}{4}$ NW $\frac{1}{4}$ , S $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ SW $\frac{1}{4}$ , N $\frac{1}{2}$ SE $\frac{1}{4}$  & SE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 31  
 SW $\frac{1}{4}$ SW $\frac{1}{4}$  Section 32  
 Dated : August 1, 1973  
 Lessor : Peoples Securities Company  
 Lessee : Mesa Petroleum Co.  
 Owner : Mesa Petroleum Co. 70%  
 Transwestern Gas Supply Company 15%  
 Pacific Lighting Gas Development Company 15%  
 Royalty: 18.75% Other Burden: -0-

Tract 8 - 200 a., N $\frac{1}{2}$ S $\frac{1}{2}$  & SE $\frac{1}{4}$ SE $\frac{1}{4}$  Section 32  
 Dated : June 18, 1968  
 Lessor : State of New Mexico, L-968  
 Lessee : Pennzoil United, Inc.  
 Owner : Pennzoil Company 74.9918%  
 Wainoco Oil & Gas Company 25.0082%  
 Royalty: 12.5% Other Burden: -0-

Tract 9 - 157.17 a., lots 3 & 4, SE $\frac{1}{4}$ SW $\frac{1}{4}$ , SW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 31  
 Dated : July 16, 1968  
 Lessor : State of New Mexico, L-1040  
 Lessee : E. V. Mitchell  
 Owner : Pennzoil Company 74.9918%  
 Wainoco Oil & Gas Company 25.0082%  
 Royalty: 12.5% Other Burden: 12.5% ORI

Tract 10 - 197.11 a., N $\frac{1}{2}$ NE $\frac{1}{4}$ , NE $\frac{1}{4}$ NW $\frac{1}{4}$ , lots 1 & 2 Section 31  
 Dated : February 10, 1951  
 Lessor : State of New Mexico, E-5014  
 Lessee : Ralph Nix  
 Owner : Perry R. Bass 1/4  
 Bass Enterprises Production Co. 3/4  
 Royalty: 12.5% Other Burden: -0-

Tract 11 - 80 a., SE $\frac{1}{4}$ SW $\frac{1}{4}$  & SW $\frac{1}{4}$ SE $\frac{1}{4}$  Section 32  
Dated : July 19, 1956  
Lessor : a. Ora Loving Jackson      b. James H. Jackson  
Lessee : Charles B. Read  
Owner : Atlantic Richfield Company  
Royalty: 12.5%                      Other Burden:      -0-

V.

Addresses of Parties for Notice:

Mesa Petroleum Co.  
1000 Vaughn Building  
Midland, Texas 79701  
Attn: Robert H. Northington  
(915) 683-5391

Amoco Production Company  
P. O. Box 3092  
Houston, Texas 77001  
Attn: Tom J. Morrow  
(713) 652-4617

Pennzoil Company  
P. O. Box 1820  
Midland, Texas 79702  
Attn: Cecil B. Ellis  
(915) 682-7316

Transwestern Gas Supply Company  
P. O. Box 2521  
Houston, Texas 77001  
Attn: W. L. Holmes  
(713) 651-0161

Pacific Lighting Gas Development Company  
720 West Eighth Street  
Los Angeles, California 90017  
Attn: W. E. Ryan  
(213) 689-2467

Wainoco Oil & Gas Company  
1100 Milam Building, Suite 600  
Houston, Texas 77002  
Attn: Leonard K. Bray  
(713) 658-9900

Atlantic Richfield Company  
P. O. Box 1610  
Midland, Texas 79702  
Attn: Curtis Krehbiel  
(915) 684-0100

Perry R. Bass  
P. O. Box 2760  
Midland, Texas 79702  
(915) 684-5723

Bass Enterprises Production Co.  
P. O. Box 2760  
Midland, Texas 79702  
Attn: Bill Parsons  
(915) 684-5723

VI.

Schedules of Participation:

A. W<sub>2</sub> Section 32 (Initial Test Well)

<u>Party</u>	<u>BPO</u> <u>Cost Sharing</u> %	<u>APO</u> <u>Cost Sharing</u> %
Amoco Production Company	38.00	36.2617
Mesa Petroleum Co.	35.00	30.0844
Transwestern Gas Supply Company	9.21	7.3904
Pacific Lighting Gas Development Company	9.21	7.3904
Wainoco Oil & Gas Company	8.58	6.8866
Pennzoil Company	-0-	5.7365 (1)
Atlantic Richfield Company	-0-	6.2500 (1)
	<u>100.00</u>	<u>100.0000</u>

(1) assumes conversion of ORI to WI

B. E<sub>2</sub> Section 32

<u>Party</u>	<u>Cost Sharing</u> %
Amoco Production Company	33.8447
Mesa Petroleum Co.	28.0784
Transwestern Gas Supply Company	6.8974
Pacific Lighting Gas Development Company	6.8974
Wainoco Oil & Gas Company	6.4276
Pennzoil Company	5.3545
Atlantic Richfield Company	<u>12.5000</u> (1)
	100.0000

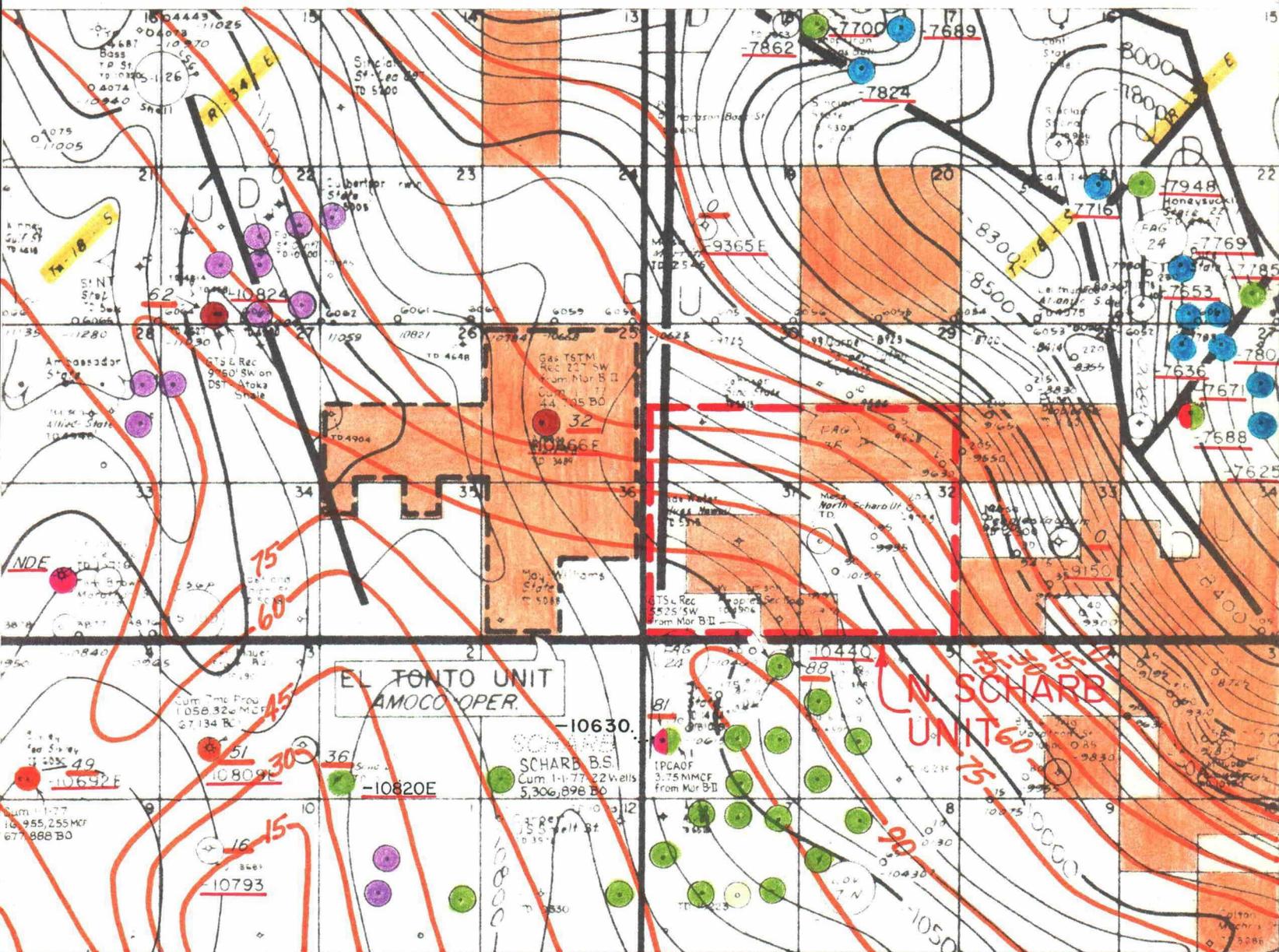
(1) has option to farmout retaining 6.25% ORI and conversion option to 50% WI

C. Section 31

<u>Party</u>	<u>Cost Sharing</u>
	%
Amoco Production Company	27.8482
Bass Enterprises Production Co.	23.3071
Mesa Petroleum Co.	21.6755
Perry R. Bass	7.7691
Transwestern Gas Supply Company	5.0778
Pacific Lighting Gas Development Company	5.0778
Wainoco Oil & Gas Company	4.7255
Pennzoil Company	4.5190
	<u>100.0000</u>

D. S $\frac{1}{2}$  Section 29 and S $\frac{1}{2}$  Section 30

<u>Party</u>	<u>Cost Sharing</u>
	%
Amoco Production Company	40.4044
Mesa Petroleum Co.	31.4485
Transwestern Gas Supply Company	7.3672
Pacific Lighting Gas Development Company	7.3672
Wainoco Oil & Gas Company	6.8562
Pennzoil Company	6.5565
	<u>100.0000</u>



- PRODUCTION CODE**
- Queen
  - Bone Spring
  - Wolfcamp
  - Strawn
  - Atoka Clastic
  - Atoka Lime
  - Morrow A-I
  - Morrow B-II
  - Morrow B-III
  - Devonian
  - McKee

BEFORE EXAMINER STAMETS  
OIL CONSERVATION COMMISSION

EXHIBIT NO. 2

CASE NO. 6183

Submitted by \_\_\_\_\_

Hearing Date \_\_\_\_\_



**MESA**  
PETROLEUM CO.  
PERMIAN BASIN DIVISION

**NORTH SCHARB UNIT**  
Lea County, New Mexico

**STRUCTURE**  
Top / Siluro-Devonian  
C.I.=100'

**NET ISOPACH**  
Morrow B-III Sand  
C.I.=15'

BY CDP  
DATE 3-15-78

DRAWN BY TDM  
SCALE 1"=5000'